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UNCLAS SECTION 01 OF 02 TAIPEI 004882

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STATE FOR EAP/RSP/TC, STATE PASS AIT/W AND USTR, USTR FOR WINELAND, WINTERS AND STRATFORD, USDOC FOR 4431/ITA/MAC/AP/OPB/TAIWAN/MBMORGAN AND JDUTTON

E.O. 12958: N/A
TAGS: ECON ETRD TW ESTH
SUBJECT: TAIWAN'S PLAN TO CUT HEALTH COSTS WORRIES PHRMA

REF: TAIPEI 4685

¶1. Summary: In the first of what are promised to be regular bimonthly meetings between Taiwan's Bureau of National Health Insurance (BNHI), AIT, and local heads of U.S. pharmaceutical companies, BNHI explained in detail its current proposal to expand a pilot reimbursement cap program. Makers of innovative pharmaceuticals are concerned that expanding the "global budget" program will encourage hospitals to switch to lower-cost/higher-margin generic drugs and reduce prescriptions of patented products. End Summary.

¶2. Representatives of U.S. pharmaceutical companies in Taiwan joined AIT in a meeting chaired by BNHI CEO Dr. Liu Chien-hsiang to discuss BNHI's plans to extend "global budgeting" to all hospitals and medical centers in Taiwan. Global budgeting is the term used to describe reimbursement caps imposed by BNHI. Medical providers are guaranteed a certain amount of funding from BNHI, but if their claims exceed that amount they are reimbursed at a reduced rate or not at all. BNHI's goal is to encourage the hospitals to operate more efficiently while simultaneously reining in medical spending growth that threatens to bankrupt Taiwan's health care system. However, experience from implementing global budgeting on a trial basis beginning in 2004 shows that hospitals respond to BNHI budget caps by limiting purchases of innovative pharmaceuticals and switching from innovative drugs to lower-cost/higher-margin generics that may be less effective. Some hospitals were also accused of "patient dumping," i.e., refusing to admit patients with chronic ailments or needing high-cost treatments or forcing them to repeatedly shift hospitals. Taiwan's Department of Health (DOH) acted quickly to impose punitive sanctions on any hospital engaging in patient dumping, but anecdotal reports suggests the practice still occurs. There were no penalties for drug switching, and it would likely be impossible to impose such penalties.

The Latest Global Budget Plan
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¶3. DOH is confident that its newly proposed expansion of the global budget system has taken into account lessons learned from the pilot implementation program and will limit opportunities for abuse. It strives to provide predictability, encourage competition, and promote transparency. Hospitals can choose a guaranteed reimbursement of between 80% and 90% of their costs (July 2004 to June 2005 base period.) Hospital expenses over the chosen guaranteed amount will then be reimbursed on a floating scale up to a cut-off point that is determined by the chosen guarantee level. A lower guaranteed level results in a higher cut-off point (up to 115% of the base period reimbursement) while a higher guaranteed level means a lower cut-off (105% of the base period for those that chose a 90% guaranteed level.) Any expenses above the individual hospital cut-off point will not be reimbursed, but will be considered when budgets are allocated the next year. To avoid patient dumping, BNHI is proposing that claims for certain cases designated as acute or severe be fully reimbursed, regardless of the guaranteed limits, and that the individual hospital cut-off points be adjusted upward.

¶4. To encourage competition and to ensure that patients have the opportunity to benefit from new and innovative pharmaceuticals, BNHI has earmarked 5% of the NHI budget specifically for purchase of new products. This amount is separate from reimbursements provided under the global budget proposal and is meant to encourage hospitals to increase their use of innovative but more expensive products. BNHI also proposes to create a mechanism to closely monitor hospital expenditures in real-time that will allow it to adjust payments to reward or penalize hospital practices. Hospital representatives are encouraged to join BNHI to create regional co-management teams to improve communication and transparency and create peer-control mechanisms.

Consultation not leading to Consensus
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¶5. BNHI has already held four meetings with hospital representatives, consumers and health care experts to discuss

the plan. However, some large medical centers are reluctant to accept a BNHI proposal that they reportedly believe will limit their earning potential and entail increased monitoring from BNHI. BNHI had hoped to implement the new plan beginning January 1, but opposition from the medical centers has delayed implementation indefinitely. BNHI was to meet with hospital representatives December 9 for further discussions.

¶6. Taiwan-based representatives of U.S. pharmaceutical companies were pleased to finally have the opportunity to hear directly BNHI's proposal, but were disappointed that they had not been informed earlier. BNHI CEO Liu responded that the plan was still not finalized and that BNHI felt that it would have been premature to share earlier versions of the global budget proposal. AIT Econoff made the point that early consultation was the best way to head off potential concerns and suggested that implementation of the proposal be delayed to allow companies a chance to respond. Liu agreed that information-sharing was important and promised to give the U.S. pharmaceutical company representatives some time to review this new information. He did not, however, give any specific date. Liu welcomed the chance to have regular meetings with U.S. pharmaceutical company representatives and AIT and promised to do his best be available to chair each meeting.

Comment: Minimize the Negatives
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¶7. Comment: U.S. pharmaceutical companies were taken by surprise in November when word of the new global budget proposal leaked out. Misunderstanding and mistaken assumptions about how the program would operate were compounded by a lack of communication with BNHI. This meeting was industry's first chance to hear directly from BNHI what the expanded global budget proposal would entail. Company representatives will join AIT to discuss the details of the program with staff-level DOH drafters in the next week with the goal of mitigating the negative effects of the expanded global budget program on innovative pharmaceuticals. However, BNHI appears to be committed to implementing the program in the near future. It is unlikely that pharmaceutical companies will be able to stop implementation of this plan. CEO Liu's willingness to engage with the international community is encouraging and a marked departure from the lack of interest BNHI displayed in the recent past. These bimonthly meetings (the next is tentatively scheduled for February) could serve as a valuable new forum for AIT and the pharmaceutical industry to work with the DOH and BNHI to tackle both immediate and long-term problems. End comment.
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